

REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 12 FORECAST

(In Million \$)

ADOPTED

REVENUE SOURCE / Dedications	FY11 Actual	Official Forecast 3/7/2011	Proposed DOA Forecast 12/14/2011	Proposed LFO Forecast 12/14/2011	DOA +(-) Official Forecast	LFO +(-) Official Forecast
-						
Transp. Trust/Motor Fuels/93% Veh. Sales	486.0	490.4	471.9	470.1	(18.5)	(20.3)
Transp. Mobility Fund / 7% Veh. Sales		0.0	0.0	0.0	-	-
Motor Vehicles Lic. - TTF	41.8	46.9	42.1	50.2	(4.8)	3.3
Aviation Tax - TTF	29.8	29.8	29.8	29.8	-	-
TTF/Interest and Fees	29.6	29.9	27.3	28.9	(2.6)	(1.0)
Motor Fuels - TIME Program	121.5	122.6	118.0	117.5	(4.6)	(5.1)
Motor Veh.Lic - Hwy Fund #2	9.4	11.6	10.5	11.4	(1.0)	(0.2)
State Highway Improvement Fund	43.7	30.4	43.7	49.0	13.3	18.6
Severance Tax -Parishes	42.5	44.4	38.3	37.5	(6.1)	(6.9)
Severance Tax - Forest Prod. Fund	2.0	2.2	2.4	2.0	0.2	(0.2)
Royalties - Parishes	49.0	47.4	53.1	55.0	5.7	7.7
Royalties-DNR/AG Support Fund	1.6	2.6	1.6	1.6	(1.0)	(1.0)
Wetlands Fund	29.1	29.5	28.5	28.1	(0.9)	(1.4)
Mineral Audit Settlement Fund	0.0	0.0	0.0	0.0	-	-
Quality Ed. Support Fund	46.9	55.0	47.5	51.6	(7.5)	(3.4)
LA Econ Dev Port Dev Infra Fund	0.0	0.0		0.0	-	-
Sales Tax Econ. Development	12.0	13.0	13.0	13.0	(0.1)	(0.0)
Tourist Promotion District	23.1	23.8	22.4	23.9	(1.4)	0.1
Excise Lic. - 2% Fire Ins.	19.0	19.5	21.4	20.0	1.9	0.5
Excise Lic. -Fire Mars. Fd.	14.2	16.1	15.9	15.4	(0.2)	(0.6)
Excise Lic. - LSU Fire Tr.	2.8	3.2	3.2	3.3	(0.1)	0.0
Insurance Fees	55.9	55.9	56.6	56.6	0.7	0.7
State Police Salary Fund	15.6	15.6	15.6	15.6	-	-
Video Draw Poker	59.2	61.7	61.6	61.2	(0.1)	(0.6)
Racetrack Slots	30.6	28.5	32.9	28.5	4.4	0.0
Lottery Proceeds Fund	133.7	130.0	139.7	139.7	9.7	9.7
SELF Fund	152.0	152.5	155.6	150.9	3.1	(1.6)
Riverboat 'Gaming' Enforce.	56.4	57.4	56.9	56.7	(0.4)	(0.7)
Compulsive Gaming Fund	2.5	2.5	2.5	2.5	-	-
Stabilization Fund	0.0	0.0	0.0	0.0	-	-
Hazardous Waste Funds	3.4	3.1	3.3	3.1	0.2	-
Supervision/Inspection Fee	8.1	8.5	8.2	8.0	(0.3)	(0.5)
Insp. Fee/Gasoline, Ag. Petr. Fund	5.2	5.2	5.1	5.0	(0.1)	(0.2)
Tobacco Settlement/4 cent Tob Tax dedication	59.3	60.7	138.9	134.0	78.2	73.3
Tob Tax Health Care Fd / Reg Enf Fd	40.0	39.5	40.5	38.3	1.0	(1.2)
Rapid Response Fund/Econ Dev	15.0	10.0	10.0	10.0	-	-
Rapid Response Fund/Workforce	10.0	10.0	10.0	10.0	-	-
Unclaimed Property / I-49	15.0	15.0	15.0	15.0	-	-
Capitol Tech	10.0	10.0	10.0	10.0	-	-
DHH Provider Fees	109.5	106.1	107.3	106.1	1.2	-
Total Dedications	1,785.6	1,790.3	1,860.2	1,859.6	69.9	69.3

Some columns and lines do not add precisely due to rounding.

REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 13 FORECAST

(In Million \$)

REVENUE SOURCE / Dedications	ADOPTED		ADOPTED		
	Official Forecast 3/7/2011	Proposed DOA Forecast 12/14/2011	Proposed LFO Forecast 12/14/2011	DOA +(-) Official Forecast	LFO +(-) Official Forecast
Alcoholic Beverage	20.5	19.5	21.8	(1.0)	1.3
Beer	36.8	35.6	35.9	(1.2)	(0.9)
Corporate Franchise		76.0			
Corporate Income		227.9			
<i>Total Corp Fran. & Inc.</i>	246.6	303.9	246.6	57.3	-
Gasoline & Special Fuels	621.0	595.4	622.7	(25.6)	1.7
Gift	-	-	-	-	-
Hazardous Waste	3.1	3.3	3.1	0.2	-
Individual Income	3,008.8	2,977.0	2,886.6	(31.8)	(122.2)
Inheritance	0.5	1.0	0.5	0.5	-
Natural Gas Franchise	2.5	2.5	2.5	0.0	-
Public Utilities	4.0	11.6	5.0	7.6	1.0
Auto Rental Excise	-	-	-	-	-
Sales Tax - General	2,764.4	2,818.8	2,764.4	54.4	-
Severance	807.2	744.2	682.9	(63.0)	(124.3)
Special Fuels		-		-	-
Supervision/Inspection Fee	8.0	8.3	8.0	0.3	-
Tobacco	124.1	138.6	136.1	14.5	12.0
Unclaimed Property	34.0	37.8	34.0	3.8	-
Miscellaneous Receipts	6.1	5.5	6.1	(0.6)	-
Total-Dept. of Revenue	7,687.6	7,703.0	7,456.2	15.4	(231.4)
Royalties	515.7	541.2	574.5	25.5	58.8
Rentals	21.7	20.2	14.9	(1.5)	(6.7)
Bonuses	37.1	25.0	20.1	(12.1)	(17.0)
Mineral Interest	3.0	3.8	3.0	0.8	-
Total-Natural Res.	577.5	590.2	612.5	12.7	35.1
Interest Earnings (SGF)	91.5	105.0	100.0	13.5	8.5
Interest Earnings (TTF)	2.0	1.5	1.0	(0.5)	(1.0)
Var. Agy. Receipts	44.8	41.3	51.8	(3.5)	7.0
Agency SGR Over-Collections	19.8	18.1	25.9	(1.7)	6.1
Bond Reimbursements	4.0	4.0	4.0	(0.0)	-
Quality Ed. Support Fund	55.0	48.1	51.6	(6.9)	(3.4)
Lottery Proceeds	130.3	130.3	130.3	-	-
Land-based Casino	76.0	80.2	75.0	4.2	(1.0)
Tobacco Settlement	60.5	97.3	91.5	36.8	31.0
DHH Provider Fees	106.1	108.4	106.1	2.3	-
Total Treasury	590.0	634.2	637.2	44.2	47.1
Excise License	420.0	400.8	407.4	(19.2)	(12.6)
Ins. Rating Fees (SGF)	55.9	57.9	57.0	2.0	1.1
Total-Insurance	475.9	458.7	464.4	(17.2)	(11.5)
Misc. DPS Permits & ABC Permits	11.3	12.6	13.8	1.3	2.4
Titles	23.7	21.9	24.4	(1.8)	0.7
Vehicle Licenses	120.5	97.8	120.5	(22.7)	-
Vehicle Sales Tax	324.2	316.4	327.4	(7.8)	3.2
Riverboat Gaming	367.0	360.2	362.3	(6.8)	(4.7)
Racetrack slots	60.5	59.2	60.5	(1.3)	-
Video Draw Poker	202.2	199.8	198.7	(2.4)	(3.5)
Total-Public Safety	1,109.4	1,067.9	1,107.5	(41.5)	(1.9)
Total Taxes, Lic., Fees	10,440.5	10,454.0	10,277.9	13.6	(162.6)
<i>Less: Dedications</i>	<i>(1,819.7)</i>	<i>(1,841.7)</i>	<i>(1,871.1)</i>	<i>(22.0)</i>	<i>(51.5)</i>
<i>Less: NOW Waiver Fund Allocation</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
STATE GENERAL FUND REVENUE - DIRECT	8,620.8	8,612.3	8,406.7	(8.5)	(214.1)
Oil Price (\$/barrel)	\$85.86	\$96.19	\$97.42	\$10.33	\$11.56
<i>Some columns and lines do not add precisely due to rounding.</i>					

REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 13 FORECAST

(In Million \$)

REVENUE SOURCE / Dedications	ADOPTED		ADOPTED		DOA +(-) Official Forecast	LFO +(-) Official Forecast
	Official Forecast 3/7/2011	Proposed DOA Forecast 12/14/2011	Proposed LFO Forecast 12/14/2011			
Transp. Trust/Motor Fuels/93% Veh. Sales	496.8	476.3	498.2	(20.5)	1.4	
Transp. Mobility Fund / 7% Veh. Sales	0.0	0.0	0.0	-	-	
Motor Vehicles Lic. - TTF	51.8	42.6	53.0	(9.3)	1.2	
Aviation Tax - TTF	29.8	29.8	29.8	-	-	
TTF/Interest and Fees	29.9	27.3	28.9	(2.6)	(1.0)	
Motor Fuels - TIME Program	124.2	119.1	124.5	(5.1)	0.3	
Motor Veh.Lic - Hwy Fund #2	12.8	10.7	12.1	(2.1)	(0.7)	
State Highway Improvement Fund	33.6	44.2	51.8	10.6	18.2	
Severance Tax -Parishes	45.2	40.8	38.6	(4.4)	(6.6)	
Severance Tax - Forest Prod. Fund	2.2	2.3	2.0	0.0	(0.2)	
Royalties - Parishes	51.6	54.1	57.5	2.5	5.9	
Royalties-DNR/AG Support Fund	2.6	1.6	1.6	(1.0)	(1.0)	
Wetlands Fund	30.6	29.6	28.9	(1.0)	(1.7)	
Mineral Audit Settlement Fund	0.0	0.0	0.0	-	-	
Quality Ed. Support Fund	55.0	48.1	51.6	(6.9)	(3.4)	
LA Econ Dev Port Dev Infra Fund	0.0		0.0	-	-	
Sales Tax Econ. Development	13.6	13.6	13.5	0.1	(0.1)	
Tourist Promotion District	24.7	23.5	24.7	(1.2)	(0.0)	
Excise Lic. - 2% Fire Ins.	20.4	22.6	21.2	2.2	0.8	
Excise Lic. -Fire Mars. Fd.	16.8	16.8	16.3	0.0	(0.5)	
Excise Lic. - LSU Fire Tr.	3.4	3.3	3.5	(0.0)	0.1	
Insurance Fees	55.9	57.9	57.0	2.0	1.1	
State Police Salary Fund	15.6	15.6	15.6	-	-	
Video Draw Poker	62.6	61.6	61.7	(1.0)	(0.9)	
Racetrack Slots	28.6	32.8	28.6	4.2	-	
Lottery Proceeds Fund	129.8	129.8	129.8	-	-	
SELF Fund	154.4	157.9	152.2	3.5	(2.2)	
Riverboat 'Gaming' Enforce.	58.0	56.9	56.9	(1.1)	(1.1)	
Compulsive Gaming Fund	2.5	2.5	2.5	-	-	
Stabilization Fund	0.0	0.0	0.0	-	-	
Hazardous Waste Funds	3.1	3.3	3.1	0.2	-	
Supervision/Inspection Fee	8.0	8.3	8.0	0.3	-	
Insp. Fee/Gasoline, Ag. Petr. Fund	5.4	5.1	5.0	(0.3)	(0.4)	
Tobacco Settlement/4 cent Tob Tax dedication	60.5	110.0	104.0	49.5	43.5	
Tob Tax Health Care Fd / Reg Enf Fd	39.4	40.2	38.2	0.9	(1.2)	
Rapid Response Fund/Econ Dev	10.0	10.0	10.0	-	-	
Rapid Response Fund/Workforce	10.0	10.0	10.0	-	-	
Unclaimed Property / I-49	15.0	15.0	15.0	-	-	
Capitol Tech	10.0	10.0	10.0	-	-	
DHH Provider Fees	106.1	108.4	106.1	2.3	-	
Total Dedications	1,819.7	1,841.7	1,871.1	22.0	51.5	

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REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 14-16 FORECAST

(In Million \$)

	ADOPTED	ADOPTED	ADOPTED
	LFO FY14	LFO FY15	LFO FY16
REVENUE SOURCE / Dedications	12/14//2011	12/14//2011	12/14//2011
Alcoholic Beverage	21.7	22.2	22.7
Beer	35.9	35.8	35.7
Corporate Franchise			
Corporate Income			
<i>Total Corp Fran. & Inc.</i>	293.9	343.9	542.3
Gasoline & Special Fuels	637.5	650.4	661.6
Gift	0.0	0.0	0.0
Hazardous Waste	3.2	3.3	3.3
Individual Income	3,069.0	3,276.4	3,507.3
Inheritance	0.4	0.3	0.2
Natural Gas Franchise	3.0	3.5	2.0
Public Utilities	5.0	5.0	5.0
Auto Rental Excise	0.0	0.0	0.0
Sales Tax - General	2,856.4	2,936.5	2,998.2
Severance	677.2	683.0	687.4
Special Fuels			
Supervision/Inspection Fee	8.5	9.0	9.4
Tobacco	135.7	135.1	134.5
Unclaimed Property	34.0	34.0	34.0
Miscellaneous Receipts	6.1	6.1	6.1
Total-Dept. of Revenue	7,787.6	8,144.5	8,649.7
Royalties	583.1	591.8	604.2
Rentals	15.2	15.4	15.7
Bonuses	20.4	20.7	21.1
Mineral Interest	3.0	3.0	3.0
Total-Natural Res.	621.7	630.9	644.1
Interest Earnings (SGF)	100.0	100.0	100.0
Interest Earnings (TTF)	1.0	1.0	1.0
Var. Agy. Receipts	51.8	51.8	51.8
Agency SGR Over-Collections	25.9	25.9	25.9
Bond Reimbursements	4.0	4.0	4.0
Quality Ed. Support Fund	51.6	51.6	51.6
Lottery Proceeds	130.3	130.3	130.3
Land-based Casino	76.0	77.0	78.0
Tobacco Settlement	91.5	91.5	91.5
DHH Provider Fees	106.1	121.4	124.4
Total Treasury	638.2	654.5	658.5
Excise License	434.5	452.2	470.0
Ins. Rating Fees (SGF)	60.8	63.3	65.8
Total-Insurance	495.3	515.5	535.8
Misc. DPS Permits & ABC Permits	14.7	14.7	14.7
Titles	26.0	26.0	26.0
Vehicle Licenses	129.7	133.0	133.0
Vehicle Sales Tax	350.0	348.9	349.2
Riverboat Gaming	365.5	370.0	373.4
Racetrack slots	61.5	62.5	62.5
Video Draw Poker	200.5	203.0	204.4
Total-Public Safety	1,147.9	1,158.0	1,163.1
Total Taxes, Lic., Fees	10,690.7	11,103.4	11,651.2
<i>Less: Dedications</i>	<i>(1,906.5)</i>	<i>(1,948.4)</i>	<i>(1,972.4)</i>
 STATE GENERAL FUND REVENUE - DIRECT	 8,784.2	 9,155.0	 9,678.8
Oil Price (\$/barrel)	\$95.70	\$95.25	\$95.36

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REVENUE ESTIMATING CONFERENCE

FISCAL YEAR 14-16 FORECAST

(In Million \$)

	ADOPTED	ADOPTED	ADOPTED
	LFO FY14	LFO FY15	LFO FY16
REVENUE SOURCE / Dedications	12/14//2011	12/14//2011	12/14//2011
Transp. Trust/Motor Fuels/93% Veh. Sales	510.0	520.3	529.3
Transp. Mobility Fund / 7% Veh. Sales	0.0	0.0	0.0
Motor Vehicles Lic. - TTF	57.1	58.5	58.5
Aviation Tax - TTF	29.8	29.8	29.8
TTF/Interest and Fees	28.9	28.9	28.9
Motor Fuels - TIME Program	127.5	130.1	132.3
Motor Veh.Lic - Hwy Fund #2	13.0	13.3	13.3
State Highway Improvement Fund	55.8	57.2	57.2
Severance Tax -Parishes	38.3	38.6	38.8
Severance Tax - Forest Prod. Fund	2.0	2.0	2.0
Royalties - Parishes	58.3	59.2	60.4
Royalties-DNR/AG Support Fund	1.6	1.6	1.6
Wetlands Fund	28.9	29.2	29.5
Mineral Audit Settlement Fund	0.0	0.0	0.0
Quality Ed. Support Fund	51.6	51.6	51.6
LA Econ Dev Port Dev Infra Fund	0.0	0.0	0.0
Sales Tax Econ. Development	14.0	14.3	14.6
Tourist Promotion District	25.6	26.3	26.7
Excise Lic. - 2% Fire Ins.	22.6	23.5	24.4
Excise Lic. -Fire Mars. Fd.	17.4	18.1	18.8
Excise Lic. - LSU Fire Tr.	3.7	3.8	4.0
Insurance Fees	60.8	63.3	65.8
State Police Salary Fund	15.6	15.6	15.6
Video Draw Poker	62.2	62.8	63.2
Racetrack Slots	28.6	28.7	28.7
Lottery Proceeds Fund	129.8	129.8	129.8
SELF Fund	153.9	155.8	157.6
Riverboat 'Gaming' Enforce.	57.4	58.1	58.6
Compulsive Gaming Fund	2.5	2.5	2.5
Stabilization Fund	0.0	0.0	0.0
Hazardous Waste Funds	3.2	3.3	3.3
Supervision/Inspection Fee	8.5	9.0	9.4
Insp. Fee/Gasoline, Ag. Petr. Fund	5.0	5.0	5.0
Tobacco Settlement/4 cent Tob Tax dedication	103.9	103.9	103.9
Tob Tax Health Care Fd / Reg Enf Fd	38.1	37.9	37.8
Rapid Response Fund/Econ Dev	10.0	10.0	10.0
Rapid Response Fund/Workforce	10.0	10.0	10.0
Unclaimed Property / I-49	15.0	15.0	15.0
Capitol Tech	10.0	10.0	10.0
DHH Provider Fees	106.1	121.4	124.4
Total Dedications	1,906.5	1,948.4	1,972.4

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REVENUE ESTIMATING CONFERENCE
December 14, 2011

Legislative Fiscal Office
State Revenue Forecast
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
TLF Revenue	\$9,563	\$9,940	\$10,278	\$10,691	\$11,103	\$11,651
Less Dedications	-\$1,793	-\$1,873	-\$1,871	-\$1,907	-\$1,948	-\$1,972
SGF Revenue	\$7,770	\$8,067	\$8,407	\$8,784	\$9,155	\$9,679
Forecast Change		-\$198	-\$214	-\$243	-\$224	na
Yr/Yr \$ Chg.	\$594	\$297	\$340	\$377	\$371	\$524
Yr/Yr % Chg.	8.3%	3.8%	4.2%	4.5%	4.2%	5.7%

The national recession hit FY10 in a big way but recovery began in FY11 with a relatively strong bounce-back. The forecast for FY12 – FY16 reduces the growth baseline by roughly \$200 million per year, but year-over-year revenue growth is still expected. Since it has been essentially six months since the FY12 forecast has been revised, changes are made to almost every revenue source. However, the big changes to the state general fund (SGF) forecast are concentrated in only a few items.

The largest negative dollar change occurs in the personal income tax, where a \$142.5 million reduction is recommended. In part, this is simply a correction to forecast made necessary because at the last REC meeting in May only the FY11 forecasts were revised and the FY12 – FY15 forecasts were left unchanged. Large downward revisions were recommended at that time, as well. The current evaluation continues to support reducing that forecast. Growth from FY11 actual is still a robust 11%, and bears close monitoring. Growth for FY13 is 8%; then moderating to the 6% - 7% range in the out-years.

The severance tax forecasts are also reduced materially throughout the forecast horizon; some \$128.5 million for FY12, even as oil price forecasts are raised \$8/bbl - \$12/bbl. A more extensive discussion of this follows below, but fundamentally increasing amounts of oil & gas production is occurring that are substantially tax exempt. In addition, gas production appears to be diverting away from taxable production as development of the largely tax-exempt Haynesville Shale formation continues.

Royalty receipts are a bright spot, providing a positive offset to the negative revisions in the severance tax. Although natural gas prices have been weaker than expected, and gas price forecasts have been revised down, the strength in oil prices has more than made up for the weakness in gas prices. Consequently, material upward revisions in expected royalty receipts have been made, muting the downward revisions in overall mineral revenue.

General sales taxes are growing only modestly, following a sharp rebound in FY11 from trough of FY10. The current forecast already expects only modest growth in FY12 and beyond and is not changed at this time. Where strong sales are occurring is in vehicles with a second year of rebound, albeit at half the rate of the bounce in FY11. The vehicle sales tax forecast is revised upward. However, changes in vehicles and other comparable size revenue sources are largely offsetting.

Corporate forecasts are not changed at this time. The strength in oil prices, manufacturing activity in general, and corporate profits in general suggests that at some point this should be an area of upward revision from very modest levels in the current forecast. However, the FY10 amnesty program still distorts the true base behavior of this tax, and performance year-to-date is still weak compared to forecast. Much of these receipts occur late in the fiscal year, and missteps here can be difficult to recover from. Until there is more firm evidence of growth in these receipts, this forecast will be held at current levels.

Forecast risks are probably more evenly weighted now than in prior periods. However, that does not mean there is no downside risk. The personal income tax growth rate is still robust and can prove overly optimistic. The influence of high oil prices is considerable, especially in light of the tax exemption and production distortions occurring. A material downward movement in oil prices, from a deep European recession or slower growth in emerging markets, will materially damage the forecast. On the other hand, the personal income tax has shown some very strong months this year, and the sales tax growth forecast is modest. With large revenue sources like sales tax, small percentage improvements can result in large dollar benefit to the forecasts. In addition, corporate taxes seem poised to rebound. Some optimism is warranted.

Oil and Gas Price Forecast

	FY11	FY12	FY13	FY14	FY15	FY16
Oil \$/bbl, WTI	\$89.32	\$92.77	\$97.42	\$95.70	\$95.25	\$95.36
Forecast Change		\$8.09	\$11.56	\$10.44	\$9.39	na
Gas \$/mmbtu, HH	\$4.16	\$3.75	\$4.03	\$4.40	\$4.57	\$4.80
Forecast Change		-\$0.93	-\$1.58	-\$2.04	-\$2.05	na
Gas Sev. Tax Rate ¢/mcf	16.4¢	16.4¢	15.7¢	15.5¢	17.6¢	18.1¢

Severance and Royalty Forecast (millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Severance & Royalty	\$1,259	\$1,215	\$1,257	\$1,260	\$1,275	\$1,292
Forecast Change		-\$51	-\$66	-\$106	-\$122	na

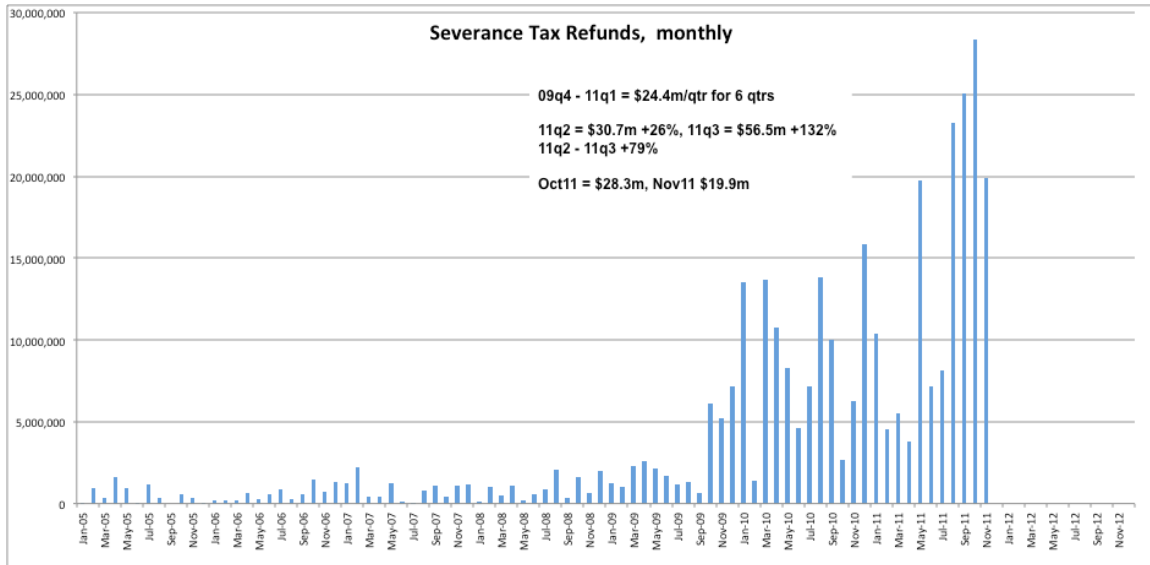
Oil prices climbed to nearly \$150/bbl in mid-2008, dipped sharply to nearly \$30/bbl in late 2008, then climbed again through 2009 and bounced around \$80/bbl for much of 2010. Louisiana price benchmarks (Empire and St. James) have exceeded \$110/bbl for

virtually all of 2011. The U.S. price benchmark, West Texas Intermediate, has diverged considerably to the downside from other price benchmarks since late 2010 but this gap has narrowed recently. The current price forecasts above are based on actual benchmark prices fiscal year-to-date, and the average of price projections by Moody's Analytics, the Energy Information Administration, and the State Department of Natural Resources for the balance of the fiscal year, and subsequent years (DNR low price scenario for oil and base price scenario for gas).

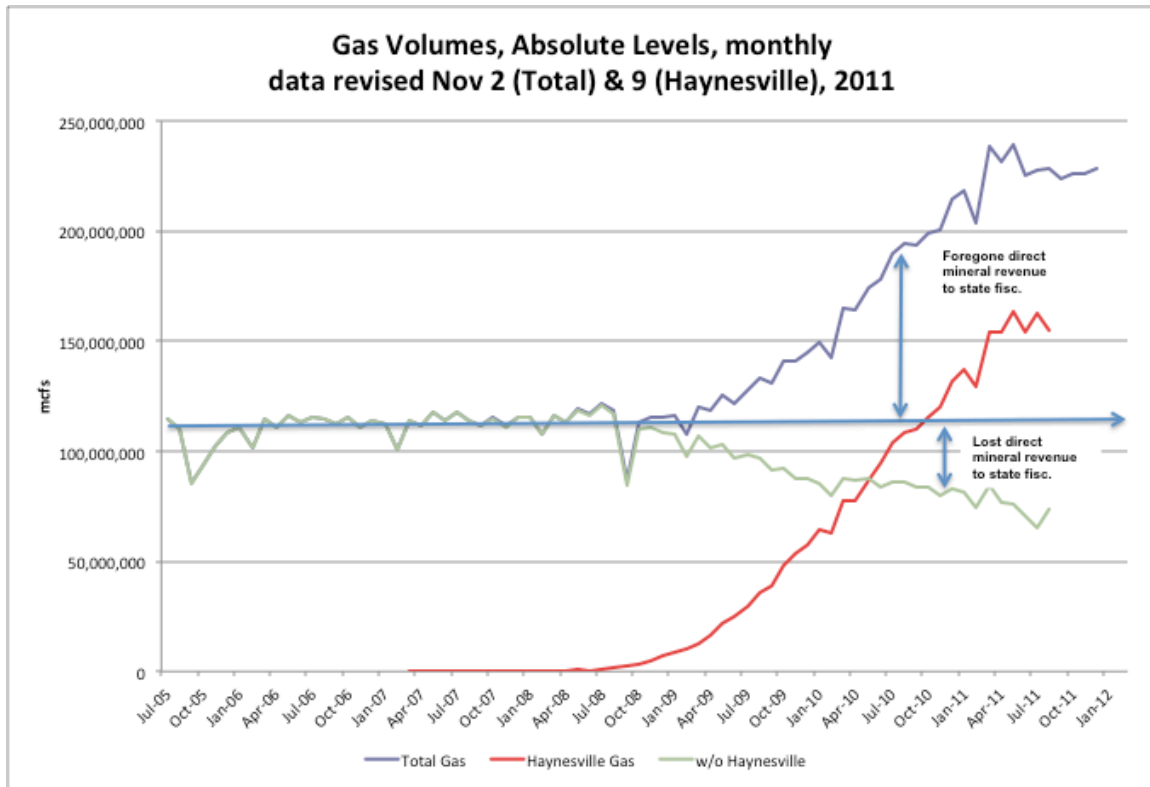
Natural gas prices continue to languish under the weight of the sluggish national economic recovery and the development of large shale formation reserves in Louisiana and around the country. The Louisiana (Henry Hub) price averaged only \$4.16/mmbtu during FY11 and has fallen below \$4/mmbtu for all of FY12 to date (below \$3.50/mmbtu since early November). Even with winter nearing it seems unlikely that the price will average the previous target of \$4.68/mmbtu for the fiscal year. This weak price outlook persists for the foreseeable future, and the price forecast baseline is reduced for all years of the forecast horizon.

Mineral revenue forecasts are being reduced from the previous forecast baseline, even though the oil price projections have been increased for all years (\$8/bbl - \$10/bbl each year). This reduction is in the severance tax component, with some increase in the royalty component, but not enough to fully offset the severance adjustment. This negative severance tax adjustment reflects a marked step-up in refund claims associated with the horizontal drilling exemption (primarily natural gas) and the re-entry well exemption (primarily oil).

Starting with October 2009 much larger than usual severance tax refunds have been made almost every month. This jump in refunds is depicted in the graph below and averaged \$24 million per quarter for six quarters (2009q4 – 2011q1). This level of refunds has been controlled for in the forecasts since they began to occur. However, these refunds have jumped up even more with the last two quarters (2011q2 and 2011q3) and the two most recent months of October and November of 2011. Refunds were nearly \$31 million in 2011q2 and nearly \$57 million in 2011q3, and were \$28 million in October alone followed by nearly \$20 million in November alone. Accounting for these new higher levels of refunds (tax exempt production) and assuming continuance into the forecast horizon results in a substantial reduction in the severance tax forecast baseline even as the oil price forecast has been increased.



Exacerbating the effects of exempt production is an apparent absolute loss of baseline natural gas production subject to the severance tax. As shown in the graph below, Haynesville production ramped up and pulled up the total of gas production in the entire state (an 88% increase since FY07), while non-Haynesville production has fallen off significantly (a 28% reduction since FY07). The area above the arrow and below the total production line reflects production that is largely tax exempt. This production was unanticipated and mineral revenue associated with it is foregone by the state fisc, but was not ever anticipated by the state fisc. The area below the arrow and above the non-Haynesville production line reflects production that is taxable. This production was anticipated and mineral revenue associated with it was anticipated by the state fisc. Thus, the state's revenue base not only foregoes unanticipated revenue from the Haynesville production itself, but also is experiencing an unanticipated reduction in baseline production and revenue from non-Haynesville activity. This unanticipated production loss has been getting larger over time.



The Haynesville Shale formation in the northwest quadrant of the state holds very large amounts of natural gas and its development has dramatically reversed the state's long-run decline of gas production. As of late November 2011, there were 2,364 wells in the formation (1,666 producing, 468 in progress, and 230 permitted to start). This activity has certainly contributed to state sales and income tax performance, and leasing activity generated an extraordinary temporary boom in bonus receipts in FY08 and FY09. However, the direct mineral revenue effects from this production activity appear to be negative. The horizontal drilling technique used for these wells qualifies them for 100% exemption from the severance tax until the earlier of well-cost payout or 24 months. These wells also exhibit very rapid depletion, with 80+% of total production depleted in the first year, and much of that depleted within the first six months. Once payout is reached (limited data suggests 8 – 9 months) severance taxes occur only on much smaller production volumes than those experienced early in the well's life. With low gas prices, a boom in bonus receipts, as last occurred in 2008, is not likely to happen again, and DNR reports very little production on state owned lands generating royalty payments. In addition, the latest monthly production data suggests a plateauing out of production growth is occurring. Thus, while total well activity is projected to be quite large over the life of the formation (over 10,000 wells over 17 years), only a relatively small amount of direct mineral revenue from this resource endowment may be received. In fact, it appears that development of the Haynesville shale has effectively diverted other severance taxable production, resulting in net losses of direct mineral revenue to the state. While the Haynesville shale has been responsible for an 88% increase in total state gas production since FY07, gas production exclusive of Haynesville has dropped by over 28%.

Fortunately, the negative adjustment to severance tax is offset somewhat by positive adjustments to royalty receipts, as strong oil prices generate greater than expected receipts (weak gas prices provide an opposing influence, but not enough to offset the oil price positive influence). Thus, total mineral revenue forecasts (severance plus royalty) are reduced from the previous baseline as shown in the table above, netting out all the influences discussed above, and modest year-over-year revenue growth still occurs. As usual, both upside and downside risk to the mineral revenue forecast always exists, as these commodity prices are subject to dramatic swings. The effects of production exemptions adds an additional uncertainty to these forecasts.

Sales Tax Forecast
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
General	\$2,610	\$2,672	\$2,764	\$2,856	\$2,937	\$2,998
Forecast Change		\$0	\$0	\$0	\$0	na
Vehicle	\$293	\$314	\$327	\$350	\$349	\$349
Forecast Change		\$15	\$3	\$14	\$8	na

Both general and vehicle sales taxes surged in FY06 (after hurricanes Katrina & Rita) as household items and vehicles were replaced. The general sales tax then sharply slowed its growth in both FY07 and FY08 and, with the help of a small tax cut on business utilities, tax receipts actually fell by 3.6% in FY09. Vehicle sales taxes exhibited negative growth immediately after the storm year, dropping in both FY07 and FY08, and then falling even more dramatically in FY09 (9.8% drop) as the recession began to hit the auto market. The recession and the remaining bulk of the business utilities tax cut hit the general sales tax in FY10 in a big way. General sales tax receipts fell 14.5% in FY10, with a number of months dropping well over 20%. While tax cuts on business utilities and other purchases took affect in FY10, drops of these magnitudes also reflected dramatic retrenchment in general household and business spending as the national recession arrived in full force.

For **the general sales tax**, the turnaround began late in FY10 (March 2010) and, as all tax cuts were absorbed through FY10, strong growth of 10.5% was experienced in FY11, aided by an easy year-over-year comparison with the large drop in FY10.

FY12 performance has been modest with year-to-date growth through November only 1.5% on a cash month basis and 3.7% on an estimated accrual basis. The current FY12 forecast requires 2.4% growth and this still seems a reasonable forecast in light of actual current performance. Growth accelerates modestly in FY13 and FY14 into the 3% - 3.5% range, and then retrenches somewhat below 3% in the forecast out-years. Reflecting the absolute size of this revenue source, each 1% point change in growth currently equates to more than \$26 million of general sales tax receipts.

While the Louisiana economy is somewhat shielded from the severity of economic problems afflicting the rest of the country, when it comes to the large consumer durable purchase of automobiles, Louisiana households (and businesses) are similar to the rest of the nation. **Vehicle sales tax** receipts dropped 9.8% in FY09 and another 19.9% in FY10; both recession years. Improvement began to occur late in 2010, and FY11 finished strong with 18.7% growth; the first positive annual growth in four years. So far in FY12, both year-to-date cash month growth and estimated accrual growth are good, running 10.6% and 9.8% ahead of last year through November, respectively. In light of this continuing good performance, the vehicle sales tax forecast path is increased somewhat.

Personal Income Tax Forecast
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Income Tax	\$2,405	\$2,673	\$2,887	\$3,069	\$3,276	\$3,507
Forecast Change		-\$143	-\$122	-\$132	-\$139	na

The personal income tax receipts grew 4.6% in the storm year of FY06, then surged 29.7% in FY07. FY08 had to be a weaker year, following such a surge and implementing phase-one of the excess itemized deduction giveback, finishing 2.7% down. FY09 also had to be a down year as the U.S. recession approached and with more tax breaks hitting that year; phase-two of the excess itemized deduction giveback, a new earned income credit, and a one-time insurance premium credit. Consequently, receipts dropped another 6.4% in that year. A much larger 25.4% drop in collections occurred in FY10, as the U.S. recession hit with full force and additional tax breaks were implemented; phase-three of the excess itemized deduction giveback and the expansion of tax brackets. With no additional large tax cuts to be absorbed after FY10, the performance in FY11 was the most normal for income tax in several years; finishing the year with 8.7% growth.

The forecast for FY12 is inconsistent with FY11 in that it was last revised in March 2011 while the forecast for FY11 was revised in May of 2011. In addition, the forecasts for each year were made by different forecasting approaches. Due to this inconsistency, and knowing the actual FY11 receipts, the implicit forecast growth rate for FY12 is 17.1 %. Monthly volatility can make this growth target seem doable (through October the cash month and accrual month year-to-date growth were 15.9% and 15.7%, respectively), but in the absence of large tax law changes such a growth rate seems unlikely to be achieved. Collections through November show growth of 8.6% on a cash month basis and 7.7% on an accrual month basis, much more like “normal” income tax collections. State employment growth now nearly twice the national rate suggests an improving income tax performance, and the growth forecast for FY12 is still a good 11.1%, before dropping to the 7% - 8% range in FY13 and beyond. Comparable to the general sales tax, the absolute size of this revenue source means that each 1% point change in growth currently equates to about \$24 million of tax receipts.

Corporate Tax Forecast
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Income & Franchise	\$262	\$255	\$247	\$294	\$344	\$542
Forecast Change		\$0	\$0	\$0	\$0	na

After four years of growth, corporate collections reached their peak for the business cycle in FY07 at \$1.052 billion, by far a record high in absolute dollar terms. This essentially doubled approximately twenty years of a \$400 million to \$600 million per year norm. Three of those years experienced double-digit growth, with one year as high as 51%. This very strong performance was driven by global economic growth, energy price increases, and U.S. dollar exchange rate declines benefiting the broadly defined energy and chemical sector producers and exporters in the state. However, this streak ended in FY08 with a drop of \$113 million (-11%) and another drop of \$114 million (-12%) in FY09. The downside of the corporate tax cycle results from the 2008-2009 national/global recession and the fall in energy prices from their mid-2008 peaks. In addition, the phase-out of borrowed capital from the franchise tax base began to reach roughly half that tax base in FY08 and should be nearly completely phased out in FY11 and FY12 from a legal tax base perspective, but potentially carrying over into FY13 and FY14 from a practical payment perspective.

While continuing economic recovery and strong oil prices argues for some optimism in corporate receipts, the baseline forecast in place has not been changed at this time. Forecasting models have been premature in predicting turn-ups in this tax and year-to-date performance through November has the tax 12.2% behind prior year on a cash basis and 5.3% behind on an accrual basis. The existing forecast allows for only a 2.8% drop from FY11 actuals. Since no change is made to the current fiscal year forecast at this point, there is no real basis for making a change in the forecasts for subsequent years. While this may be an area of future forecast increases, caution is advised at this time due to the high volatility of these receipts, and the fact that roughly one-half to two-thirds of these revenues are collected in the last quarter of fiscal year.

Motor Fuels Tax Forecast
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Gasoline & Spec Fuels	\$608	\$588	\$623	\$638	\$650	\$662
Forecast Change		-\$25	\$2	\$11	\$17	na

Combined gasoline and special fuels (diesel) performed well in the post-storm period of FY06 and FY07, growing by 3.0% and 2.3%, respectively. However, both FY08 and FY09 saw drops in these receipts, 1% and 1.7%, respectively. Weakness in FY08 coincided with fuel prices that peaked in the summer of 2008, and weakness in FY09 reflected the recession. That weakness continued in FY10 with another drop of 0.4%. Positive growth was experienced in FY11 with growth over the year of 3.3%.

However, this performance has not continued into FY12, in large part, as a result of large refunds claimed in August and September (\$17 million total). The bulk of these refunds are attributable to tax overpayments made in a five month period three years ago in 2008. Through November fuels tax receipts are 8.1% behind prior year on a cash month basis and 10.2% behind on an estimated accrual basis. If normal refunds are made through the remainder of the fiscal year, this relative performance will improve, but the current forecast for FY12 now calls for a 3.3% drop from FY11, or a \$25 million downward revision from the previous forecast.

Growth rebounds in FY13 to 6%, returning the collections baseline near to it's existing path. Growth then tapers off to 2.4% in FY13 and down to 1.7% by FY16, but adding to baseline forecasts each year.

Gaming Revenue Forecast (millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
All Gaming	\$822	\$832	\$827	\$834	\$843	\$849
Forecast Change		\$8	-\$8	-\$13	-\$14	na

Gaming in general is a fairly stable revenue source, exhibiting sharp changes only when institutional changes occur such as when new venues open or close, or tax rates or bases are changed. However, as discretionary/entertainment spending-based taxes, these receipts are also subject to weakening and strengthening with economic cycles. Growth in total receipts slowed to 1.8% in FY08 before falling in both FY09 (-2.8%) and FY10 (-3.2%). Receipts were virtually flat in FY11. Lottery transfers through calendar year 2011 (funding FY12 lottery appropriations) will likely be some \$10 million greater than expected, but are kept at previously projected levels in light of new games and pricing changes being made in the new year. Only minor upward and downward adjustments are made to the other gaming revenues, largely offsetting and resulting in an essentially flat revenue sector for FY12 again. Very modest growth may be realized in FY13 and beyond as the economy slowly improves.

Tax Renewals / Dedications (millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
4¢ Tobacco Tax Renewal Health Excellence Fd	\$0	\$0	\$12	\$12	\$12	\$12

Act 32 of 2000 imposed an additional 4¢/pack tax on cigarettes, and made the tax increase effective for two years through June 30, 2002. Act 21 of 2002 extended the tax increase through June 30, 2012. Prior to renewal, the expiration of this levy was

incorporated into the forecast projections starting with FY13, and state general fund forecasts were reduced by the expected value of the levy.

However, the adoption by the electorate of the state constitutional amendment proposed by Act 386 of the 2011 Regular session at the October 22, 2011 statewide election renewed this 4¢ levy as a minimum levy. This revenue has been added back into the forecast beginning with FY13. In addition, the amendment dedicated this revenue to the Health Excellence Fund. Thus, while the expected value of the levy is added back as gross revenue source, an equivalent increase in dedicated funds occurs and the state general fund is unaffected.

Other New Dedications

(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Tobacco Settlement Payments Re-directed to TOPS Fund	\$0	\$95	\$40	\$40	\$40	\$40
State Highway Improvement Fund	\$0	\$0	\$2	\$2	\$2	\$2

Act 386 of the 2011 Regular Session was a constitutional amendment adopted by the electorate to re-direct the tobacco settlement annual proceeds away from deposit into the Millennium Trust Fund and into the TOPS Fund. Approximately two years of proceeds are re-directed in FY12 (all FY11 proceeds received after April 1, 2011 and the FY12 proceeds not flowing to the Louisiana Fund), then each year's single payment is re-directed thereafter. This effectively brings on to the budget a revenue flow formerly received off budget and deposited to the Millennium Trust Fund. This redirection will be reflected in Tobacco Settlement revenue and dedicated to the TOPS Fund within the Settlement's collection of funds.

Act 390 of the 2011 Regular Session dedicates the remaining portion of the vehicle license tax, that was not already dedicated to the Transportation Trust Fund or to Highway Fund #2, to the existing State Highway Improvement Fund. This residual amount of license tax receipts is currently flowing to the state general fund. From FY13 all vehicle license tax receipts will be dedicated to one of these three special funds, and none of these receipts will be available to the state general Fund.

Tax Expirations

(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
Auto Rental Excise	\$0	\$0	-\$5	-\$5	-\$5	-\$5

An excise tax on short-term automobile rentals totaling 3% (2.5% state + 0.5% local) expires after June 30, 2012. This tax has been in effect since 1991 (R.S. 47:551, Act 390

of 1990), and primarily affects rentals by air travelers to the state. The state portion is currently projected to generate some \$5 million to \$6 million per year of state general fund revenue when it expires. Local revenue is roughly \$1 million per year and is concentrated in a handful of parishes (90% in nine parishes). For FY13 and beyond, the expiration of this tax has been incorporated into the state revenue projections.

Existing Dedications / Triggers
(millions of \$)

	FY11	FY12	FY13	FY14	FY15	FY16
NOW Opportunities Waiver Fund	\$7	\$?	\$?	\$?	\$?	\$?
Vehicle Sales Tax To TTF Delayed	\$0	\$0	\$0	\$0	\$0	\$0
Parish Severance Tax / Atchafalaya Basin Delayed				\$0	\$0	\$0

There are certain dedication issues worth noting displayed in the table above.

The existing **New Opportunities Waiver Fund (NOW)** is calculated at the end of each fiscal year for that year's dedication amount. For example, the calculation for FY11 was based upon the last forecast made for FY11 (May 2011) compared to the forecast for FY11 in place when the fiscal year began (June 2010). Twelve percent of the increase in those forecasts was then allocated to the NOW fund (a maximum of \$50 million can be allocated). Thus, only near the end of the fiscal year is it known whether any amount of that fiscal year's receipts will be allocated to the fund. To allocate the entire \$50 million maximum amount would require an increase in forecasts of over \$416 million.

Act 11 of 2008ES2 phases in a **dedication of vehicle sales tax receipts** to the Transportation Trust Fund. To activate this dedication requires that general fund forecasts exceed \$9.703 billion (the May 9, 2008 forecast for FY09). Once that occurs the dedication would start at the phase-in level provided by the dedication statute (FY09 10%, FY10 20%, FY11 30%, FY12 50%, FY13 75%, FY14 85%, and FY15 and beyond 100%). The current revenue outlook provides for this dedication to occur in FY17. While this seems a distant exposure to the general fund, the triggering of this dedication at that time will divert a projected \$355 million of revenue away from the state general fund in a single year.

Act 451 of the 2009 regular session, proposing a Constitutional amendment, was adopted by the electorate in November 2010. This amendment **increases the maximum amount of state severance taxes allocated back to the parishes** of severance over a two- year period. In addition, a new dedication of up to \$10 million per year is allocated from severance taxes and royalty receipts from state lands in the Atchafalaya Basin. These new allocations occur when the severance tax forecast for the "current" fiscal year exceeds the actual severance tax collections for FY09 (\$870 million). This is first "tested" on April 1, 2012 and can have its first effect for FY12. Under the current severance tax forecast

outlook, this allocation will not occur within the forecast horizon. However, dramatic movements in mineral revenues are possible, and should this dedication be triggered a significant diversion of general fund revenue would occur late in a fiscal year or essentially early in the following fiscal year during the accounting closeout period, but after that next year's budget had been established. Estimated potential effects are \$35 million in the first year of effectiveness and \$60 million per year in subsequent years

Budget Stabilization Fund Litigation Exposure

The State has been in litigation involving use of the Budget Stabilization Fund in the spring of 2010. A continuance of that case was granted by the court until such time that the official results of the statewide election held on October 22, 2011 on a proposed Constitutional Amendment, rewriting portions of the Fund's language, were reported by the secretary of state. That proposed amendment was rejected by the electorate, and the plaintiffs have filed a motion for a summary judgment in their favor. A court hearing on this motion is likely sometime in January 2012. Should the State face an adverse ruling, the current exposure to the state general fund forecast is approximately \$150 million. When that exposure might be realized and the precise size of the exposure depend on the timing of all court proceedings and the difference between the actual balance of the Fund (\$647 million) and its maximum allowed balance (\$797 million for FY12) at the time of the adverse ruling. Should a final adverse ruling occur, the REC will have to recognize a diversion of state general fund revenue into the Budget Stabilization Fund of approximately the exposure amount above.